



INTERNAL AUDIT REPORT FIXED ASSETS



September 14, 2004

Roanoke City School Board
Roanoke, VA

We have completed an audit of fixed assets valued between \$500 and \$5,000. Our audit was performed in accordance with generally accepted government auditing standards.

BACKGROUND

Fixed assets, sometimes referred to as capital assets, can basically be described as items that have useful lives that extend beyond one year. This includes items such as vehicles, buses, buildings, furniture, computers, and power equipment. Based on the school system's accounting records, approximately \$16.4 million was expended on fixed assets in the first three quarters of fiscal year 2004.

The school system's policies require that fixed assets costing \$500 or more be entered into the fixed assets system and be marked as school property. The responsibility for processing fixed assets and maintaining an accurate record of the assets primarily rests with the Warehouse staff. Department Supervisors also have roles related to fixed assets, including following the proper procedures when purchasing assets and annually verifying that all assets assigned to their locations are properly recorded in the fixed asset system.

The process for maintaining an accurate record of fixed assets is well documented. Written policies require a fixed asset form to be completed for any fixed asset purchased. The purchase must be charged to an 800 series object code and the fixed asset form must be submitted with the purchase order. All assets must be delivered to the Warehouse unless written permission is given by the Assistant Superintendent for Operations to deliver the asset to another location. The Warehouse staff enters basic information about the asset, such as cost, purchase date, model and serial numbers, and assigned location into a fixed asset system. This system was designed and programmed some years ago by the school system's Office of Technology and Information Services. The Warehouse is supposed to be notified by departments in writing if they have assets they no longer need. The Warehouse processes surplus

property by either transferring it to another department or selling it in the school system's surplus sale. Annually, the Warehouse prints reports of assets by classification that are given to department supervisors. The supervisors are responsible for verifying the accuracy of their departments' asset listing.

The school system invested considerable effort in improving procedures and improving the quality of the fixed asset records in 2002 and 2003. In 2003, the Warehouse advertised a request for proposal for a new fixed assets system and in early 2004 selected software from RCI Technologies. This system uses bar coding to identify assets and is a windows-based relational database that should provide simpler user interfaces and reporting.

PURPOSE

The purpose of this audit was limited to evaluating the controls over receiving, tagging, tracking and disposing of fixed assets with individual purchase prices between \$500 and \$5,000.

SCOPE

We evaluated the system of internal controls in place as of April 30, 2004. Our test work included all assets in the fixed asset system and physically on school board property as of June 30, 2004.

METHODOLOGY

We planned the audit by reviewing the written policies and procedures addressing fixed assets. We also reviewed the budgets for capital assets, the accounting entries in the 800 series object codes where capital asset purchases are booked, and the data recorded in the fixed asset system. We conducted interviews with staff and supervisors, documenting our understanding of the processes for managing fixed assets. We also observed the warehouse, the files for fixed assets, and the records at individual schools to enable us to document the entire process. Once documented, we evaluated the adequacy of controls by considering the primary risks involved in asset management. Based on our evaluation of the controls, we designed our test work to determine the effectiveness of the controls and the impact of any control weaknesses noted. This included tracing a sample of assets listed in the fixed assets system to their assigned locations, as well as selecting a sample of assets at various locations and verifying that they were recorded in the fixed asset system. Based on the early results of our test work, we expanded testing to determine if certain easily identifiable assets were missing as our test work indicated. This entailed contacting each building manager and asking for serial numbers from all riding lawnmowers and snow blowers at their locations. We compared this information to the records in the fixed assets system. We also reviewed the files documenting the disposition of surplus property to determine if missing assets might have been disposed of and the fixed asset records not updated.

RESULTS

Based on our initial review of the process, we found the school system had a well developed, centralized process for maintaining a record of the system's capital assets. All purchases of capital assets valued at greater than \$500 were required to be received at the Warehouse so that assets could be recorded in the system and tagged. Departments were expected to complete a form notifying the Warehouse anytime an asset was no longer needed. Departments were also expected to perform an annual inventory to verify that the capital assets reported by the fixed asset system were accurate. The following findings are based on our review of the records and our field testing.

Finding 01: Maintenance of Fixed Asset Records

We determined that the fixed asset records maintained in the fixed asset system are not accurate. In our sample testing, we could not find approximately one-third of the assets at the locations designated in the fixed asset system. We also found that approximately one-third of those assets over \$500 at school sites were not listed in the fixed asset system. Upon reviewing the 11,637 active asset records in the system, we found that approximately 30% of the serial number fields were blank or were filled in with "na" or "see warehouse." There were also hundreds of duplicate serial numbers entered into the system. This limits the usefulness of data in the system since the serial number is often the only unique identifier associated with an asset. We also noted that "unknown" was entered as the location for several assets and that standard nomenclature was not used to describe common assets. As an example, riding mowers were entered as lawn tractors, garden tractors, mulching tractors, mowers, and riding mowers. The make, model, horsepower, and cutting width of mowers was sporadically included as part of the asset description. This adds to the difficulty in identifying individual assets and groups of assets. There are no documented procedures detailing how records are to be entered into the fixed asset system.

Recommendation 01: Maintenance of Fixed Asset Records

The new fixed asset system selected by the school system uses bar coded labels to identify assets. The labels provide a unique identifier for each asset that is easily identified and can be read by a hand held scanner. RCI Technologies provides the fixed asset management program, the scanners, and will also perform a complete inventory labeling and valuing all assets over \$500. The school system is currently finalizing the scope of work with RCI Technologies and expects to have the system installed and the inventory completed by December 31, 2004.

We recommend that the Warehouse develop detailed procedures for processing fixed assets and inputting asset data into the fixed asset management system. In developing these procedures, the Warehouse should consider the needs of departments asked to complete annual inventories. A standard nomenclature should be developed for entering the various fields of data into the new system. The procedures should include

steps that involve working with the Department of Fiscal Services to ensure all capital assets over \$500 are entered into the system.

Management Response 01: Maintenance of Fixed Asset Records

Management agrees with the recommendations. While considerable work was performed during the past two years to improve procedures and the accuracy of physical inventories, the need for a full-time inventory professional is evident based on the audit findings. In addition to the Auditor's recommendations, the vacant position of Warehouse Inventory Manager will be filled by December 1 with a well-qualified inventory supervisor. The supervisor will be responsible for improving inventory procedures and ensuring all appropriate capital assets are entered into the system (timeline – December 1, 2004).

Finding 02: Annual Inventories

Based on the results of our sample testing, we can only conclude that annual inventories of fixed assets required by policy have not been properly executed and processed. As noted in finding one, the fixed asset system has a number of incomplete and inaccurate records. We would expect that this data would present a challenge to department supervisors attempting to take complete inventories. We would also expect that supervisors would have noted the erroneous and incomplete data when reporting the results of their inventory back to the Warehouse. This type of positive confirmation of the records should have produced more accurate data.

Recommendation 02: Annual Inventories

The new fixed asset management program uses bar coded labels to identify assets. Using a hand held scanner, an employee can quickly and easily scan all labeled assets at a location. The hand held data can then be downloaded into the fixed asset management program and the program can then reconcile assets in the system to the assets inventoried using the hand held scanner. This automation simplifies the inventory process and should ensure greater accuracy.

We recommend that the Warehouse develop detailed written procedures for conducting an annual inventory of assets. These procedures should describe the timing of the inventory, the locations to be inventoried, the personnel responsible for conducting the inventory, the process for conducting the inventory, and the process for correcting the fixed asset records. Procedures should specifically address the steps to be taken when the fixed asset management program identifies assets that are missing. Missing assets must be researched to determine why they are missing before correcting the records.

Management Response 02: Annual Inventories

Management generally agrees with the recommendations but program managers have

received instructions on conducting annual inventories of capital assets. Program managers were required to perform two inventory iterations during 2003-04 and certify the results as accurate. Additional training will be provided to program managers to ensure they understand inventory procedures and the need for accuracy in verifying inventory records. The new inventory supervisor will be responsible for revising physical inventory procedures, providing training to program managers in the conduct of the inventory, and coordinating the annual physical inventory (timeline – June 1, 2005).

Finding 03: Retiring / Transferring Assets

Based on the number of assets that could not be located and our discussions with the Warehouse, we conclude that the procedures for retiring and transferring capital assets are not adequately adhered to by departments. When a department no longer needs a capital asset, it is expected to complete a “capital asset inventory transfer” form. This form is supposed to be used to alert the Warehouse that an asset needs to be picked up from the site. The Warehouse will reassign the asset or hold it in the warehouse until the next auction of surplus property. The Warehouse is responsible for updating the fixed asset system to reflect the relocation or sale of the asset.

Recommendation 03: Retiring / Transferring Assets

Taking complete annual inventories of capital assets using the new fixed asset management program should identify items that have been transferred or are missing. The records should be easily updated to correct the location of transferred assets.

We recommend the procedures for conducting the sale of surplus items be revised and documented. The procedures should be developed to provide a complete record of all assets transferred to the Warehouse to be sold or scrapped. The Warehouse should consider using one of the 10 user defined fields in the fixed asset management program to document the disposition of property, either “sold” or “scrapped.” The program has a defined field for disposal date, which procedures should require to be entered upon disposing of an asset. Supplementary files should be maintained to document the proceeds from the sale of surplus items and the disposition of unsold items.

Management Response 03: Retiring / Transferring Assets

Management generally agrees with the recommendations, although written procedures have been in place and instructions provided to school and inventory personnel regarding the retirement or transfer of equipment assets. The new inventory supervisor will be responsible for developing and implementing improved procedures for retiring or transferring capital assets (timeline – June 1, 2005).

Finding 04: Missing Assets

We contacted each building manager in the school system and each operational department manager and asked for the serial numbers from each riding mower at their respective locations. When we compared the final listing of riding mowers to the fixed asset system records, we noted that only 43 of 83 riding mowers in the fixed assets system could be found. We reviewed the surplus records from 1999 forward to determine if mowers had been sold but remained on the asset system. Only one of the missing mowers was documented as having been sold as surplus. We believe that many of the 39 unaccounted for mowers were most likely scrapped or sold. When we considered the purchase date of the mowers, we identified five (5) riding mowers purchased in 1996 or later that should not have been retired before 1999 and which we conclude are missing from the school system's inventory.

Recommendation 04: Missing Assets

The Building and Operations department conducted an inventory of all riding mowers and confirmed the results of our audit work. The Fixed Asset Clerk will make appropriate changes in the fixed asset system. The new fixed asset management program is expected to significantly improve controls over capital assets.

Management Response 04: Missing Assets

Management agrees with the finding and a complete physical inventory of the actual assets (riding mowers) has been conducted and reconciled to the inventory records. Appropriate changes are being made to the fixed asset inventory records (timeline - September 15, 2004).

Finding 05: Technology Equipment

The Office of Technology and Information Services does not have an accurate inventory of items such as desk top computers, laptop computers, and digital cameras. We noted the same serial number listed for 130 computers at one school. The serial number is the only unique identifier for these assets. The Office of Technology does not maintain an alternative record of its equipment inventory and does not ask the Technology Coordinators at the schools to keep detailed records. Given the poor state of the inventory records available, we were unable to establish any level of assurance that technology assets were adequately managed and safeguarded.

Recommendation 05: Technology Equipment

The implementation of the new fixed asset management program should address the immediate asset management needs of the Office of Technology. Depending on the long term goals of the Office of Technology, a separate call support and asset management system for technology assets may warrant consideration.

Management Response 05: Technology Equipment

The Office of Technology will assign inventory responsibility for technology equipment to one of the newly authorized technology positions. The technician selected for the responsibility will carry the additional title of Technology Inventory Coordinator. The technician will be responsible for conducting the annual inventory of technology capital assets and ensuring appropriate changes are made to the fixed asset inventory records. In addition, each site-based technology coordinator will be responsible for maintaining an updated technology equipment inventory for his or her site and making appropriate changes to the fixed asset records for technology equipment through the Technology Inventory Coordinator (timeline – November 1, 2004).

A complete physical inventory is being conducted by the Office of Technology of the actual technology assets at the three schools selected for inventory verification by the Auditor. Appropriate changes will be made to the fixed asset inventory records on completion of the physical inventory at the three schools (timeline - October 15, 2004).

CONCLUSION

Based on the results of our audit work, we conclude that the overall design and operation of the system of internal controls should be strengthened to provide greater assurance that fixed assets over \$500 are adequately managed and safeguarded.

We want to thank the management and staff from the Warehouse, Department of Technology, Building Maintenance and Operations, and Central Administration for their cooperation and assistance during this audit.



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